

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name BEAR CREEK	County EMMET
Audit Date 3/31/05	Opinion Date 7/21/05	Date Accountant Report Submitted to State: 9/30/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

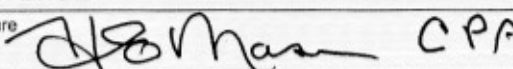
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) MASON & KAMMERMANN, P.C.			
Street Address 110 PARK AVENUE	City CHARLEVOIX	State MI	ZIP 49720
Accountant Signature  CPA		Date 9/28/05	

BEAR CREEK TOWNSHIP
EMMET COUNTY, MICHIGAN

FINANCIAL STATEMENTS
AND OTHER FINANCIAL INFORMATION
for the year ended March 31, 2005

Bear Creek Township

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MASON & KAMMERMANN, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

Members of the Township Board
Bear Creek Township
Petoskey, Michigan

We have audited the accompanying financial statements of the governmental activities and the major fund of Bear Creek Township of Petoskey, Michigan as of and for the year ended March 31, 2005, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Township's management. Our responsibility is to express opinions on these financial statements based on our audit.

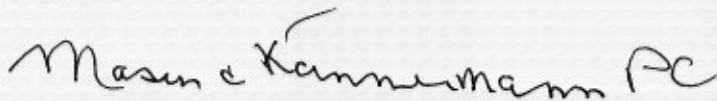
We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of Bear Creek Township as of March 31, 2005, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, the Township has implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments, as of April 1, 2004, along with all related statements and interpretations.

The management's discussion and analysis and budgetary comparison information, as identified in the table of contents, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the Township's basic financial statements. The other supporting information described in the accompanying table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, in our opinion, it is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in cursive script that reads "Mason & Kammermann PC".

Mason & Kammermann, P.C.
Certified Public Accountants

Bear Creek Township

Management Discussion & Analysis July 21, 2005

This section of Bear Creek Township's annual financial report presents our discussion and analysis of the financial performance of the Township during the fiscal year ended March 31, 2005.

Financial Highlights

- At the end of the fiscal year, the Township had a \$25,482 increase in net assets for governmental activities.
- The Township purchased capital assets of \$9,248 during the year.
- The Township's Building Inspection Fund had an increase of \$67,590 in its fund balance.

Overview of the Financial Statements

This discussion and analysis introduces the Township's basic financial statements that follow this section. These financial statements are in a new format implemented over this fiscal year to comply with Governmental Accounting Standards Board Statement 34 (GASB 34). Bear Creek Township's basic financial statements are comprised of three components: government-wide financial statements, fund financial statements and the notes to the financial statements. Additionally, this report also contains other supplementary information to the basic financial statements.

Government-wide Statements

The government-wide statements report information about the Township as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets and the Statement of Activities includes all of the Township's assets and liabilities. All of the current year's revenues and expense are accounted for in the statement of activities regardless of when cash is received or paid.

The Statement of Net Assets presents information on all of Bear Creek Township's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of Bear Creek Township is improving or deteriorating.

The Statement of Activities presents changes in the government's net assets during the most recent fiscal year, on the cash basis of accounting.

The government-wide financial statements can be found on pages 9 and 10 of this report.

Bear Creek Township

Management Discussion & Analysis July 21, 2005

Fund Financial Statements

The fund financial statements provide information separated into related areas to demonstrate how resources have been allocated for specific activities or functions. Bear Creek Township, like other governmental entities, uses fund accounting to ensure compliance with the requirements of accounting standards and laws. Bear Creek Township uses three categories of funds, which are governmental, proprietary and fiduciary funds.

Governmental Funds

Governmental funds are used to account for essentially the same functions as reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Bear Creek Township maintains three major governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Fire Fund and Building Inspection Fund, which are considered to be major funds. The Liquor Fund and Light District Fund are considered nonmajor funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of individual and combining statements on pages 38 and 39 of this report.

The Township adopts an annual appropriated budget for its general fund and special revenue funds. A budgetary comparison statement has been provided for the general fund and other major funds to demonstrate compliance with these budgets.

Proprietary Funds

Proprietary funds are used to account for the services provided by the Township where the Township charges customers (whether external or internal) for the services it provides. These funds use accrual accounting. The Township maintains one enterprise fund that is

Bear Creek Township

Management Discussion & Analysis July 21, 2005

used to report the sewer operations and maintenance. It is reported as a business-type activity in the government-wide financial statements.

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the Township's own programs. The accounting used for fiduciary funds is much like proprietary funds.

The basic fiduciary fund financial statements can be found on pages 18 and 19 of this report.

Financial Analysis of the Township as a Whole

The table below shows, in a condensed format, the Township's net assets as of March 31, 2005:

Net Assets March 31, 2005			
	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<u>Assets</u>			
Current Assets	\$ 2,364,676	\$ 412,770	\$ 2,777,446
Noncurrent Assets			
Capital Assets, net	2,288,771	-	2,288,771
Restricted Assets	-	996,543	996,543
Total Assets	4,653,447	1,409,313	6,062,760
<u>Liabilities and Net Assets</u>			
Current Liabilities	<u>16,868</u>	<u>48,097</u>	<u>64,965</u>
Net Assets			
Invested in Capital Assets, net	2,288,771	-	2,288,771
Restricted	727,575	-	727,575
Unrestricted	<u>1,620,233</u>	<u>1,361,216</u>	<u>2,981,449</u>
Total Net Assets	<u>\$ 4,636,579</u>	<u>\$ 1,361,216</u>	<u>\$ 5,997,795</u>

Bear Creek Township

Management Discussion & Analysis July 21, 2005

The total governmental net assets are \$4,636,579 for the Township. Net assets totaling \$727,575 are restricted for public safety activities. The township has \$1,620,233 of unrestricted governmental net assets, which could be used to finance the day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements.

The following table shows how activities affected changes in net assets during the fiscal year.

Changes in Net Assets For Year Ended March 31, 2005

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Revenues:			
Program Revenues			
Charges for Services	\$ 229,890	\$ 894,304	\$ 1,124,194
General Revenues:			
Property Taxes	451,273	-	451,273
Administrative Fees	122,908	-	122,908
State Shared revenues	297,871	-	297,871
Interest	20,948	4,208	25,156
Refunds	3,212	-	3,212
Other	1,101	-	1,101
Total Revenues	1,127,203	898,512	2,025,715
Expenses:			
Legislative	248,867	-	248,867
General Government	280,588	-	280,588
Community & Economic Development	3,488	-	3,488
Public Safety	327,890	-	327,890
Public Works	191,339	1,060,038	1,251,377
Recreation and Cultural	49,549	-	49,549
Total Expenses	1,101,721	1,060,038	2,161,759
Change in net assets	\$ 25,482	\$ (161,526)	\$ (136,044)

Revenue sources and changes

Total revenue from all sources totaled \$2,025,715, of which \$1,127,203 was from governmental activities and \$898,512 was from business-type activities. Revenue from

Bear Creek Township

Management Discussion & Analysis July 21, 2005

governmental activities consists primarily of \$451,273 (40%) from property taxes, \$229,890 (20%) from charges for services and \$297,871 (26%) from state revenue sharing. The millage rate for general operations was .9485 and .5000 for the fire department.

Expenses

Using a full accrual basis of accounting, the Township spent \$1,101,721 on governmental activities. This equates to 23% on legislative activities, 25% on general government, 30% on public safety, 17% on public works, and 4% on culture and recreation.

Business-type Activity Highlights

Business-type activities show a decrease in net assets of \$161,526 on revenues of \$898,512. The largest source of revenue was from charges for services, which represents about 99% of revenues for business-type activities.

Financial Analysis of the Township's Funds

At March 31, 2005, the Township's governmental funds reported a combined cash of \$1,508,572, which is approximately \$236,091 more than last year.

Revenues in the General Fund were exceeded by expenditures by \$9,250, which was due to revenues not reaching anticipated amounts.

The Fire Fund had a \$65,415 increase in its fund balance this year. This was due to expenses being less than anticipated in the budgeted amount.

The Building Inspection Fund increased by \$67,590, due to more charges for licenses and permits than expected.

The Liquor Control Fund had an increase of \$3,567, due to expenses being less than anticipated in the budgeted amount.

The Light District Fund increased its fund balance by \$855, due to collecting more property taxes than expected.

Capital Assets

At fiscal year ended March 31, 2005, the Township has \$2,288,771 in capital assets, net of accumulated depreciation. During the year the Township invested \$2,556 in building improvements and \$6,692 in equipment and furniture.

Bear Creek Township

Management Discussion & Analysis July 21, 2005

Capital assets include all purchases of assets that exceed \$1,000. Capital assets include: land and land improvements, buildings and improvements, equipment, furniture and fire equipment. The Township uses straight-line depreciation for all depreciable assets.

Long-Term Debt

The Township had no outstanding long-term debt for governmental activities as of March 31, 2005.

Known Factors Affecting Future Operations

The unemployment rate is still high in the State of Michigan and the State's shortfall in the budget means possible reductions in state shared revenues.

Requests for Information

This financial report is designed to provide a general overview of Bear Creek Township's finances for all of those with an interest in the township's finances. If you have questions concerning this report or requests for any additional financial information, please contact Bear Creek Township, 373 N. Division Rd., Petoskey, MI 49770

Bear Creek Township

Statement of Net Assets March 31, 2005

	Governmental Activities	Business-Type Activities	Total	Component Unit
<u>Assets</u>				
Current Assets				
Cash and Cash Equivalents	\$ 1,508,572	\$ 288,382	\$ 1,796,954	\$ 26,900
Certificates of Deposit	707,610	-	707,610	-
Taxes Receivable	32,018	112,801	144,819	-
Accounts Receivable	-	11,587	11,587	59,939
Due From Other Governmental Units	22,574	-	22,574	-
Due From Other Funds	93,902	-	93,902	75,376
Total Current Assets	2,364,676	412,770	2,777,446	162,215
Noncurrent Assets				
Capital Assets	3,260,108	-	3,260,108	9,017,977
Less: Accumulated Depreciation	(971,337)	-	(971,337)	(4,451,062)
Investment in Joint Venture	-	996,543	996,543	-
Restricted and Designated Assets:				
Restricted Assets, debt retirement	-	-	-	1,647,215
Designated assets, repair/replacement	-	-	-	72,264
Other Assets, unamortized bond expenses	-	-	-	19,796
Total Noncurrent Assets	2,288,771	996,543	3,285,314	6,306,190
Total Assets	4,653,447	1,409,313	6,062,760	6,468,405
<u>Liabilities and Net Assets</u>				
Current Liabilities				
Accounts Payable	16,868	-	16,868	68,610
Due to Other Governmental Units	-	48,097	48,097	75,376
Current Portion of Long-term Debt	-	-	-	70,000
Liabilities Payable from restricted assets	-	-	-	20,216
Total Current Liabilities	16,868	48,097	64,965	234,202
Long-term Liabilities				
Long-term debt, net current portion	-	-	-	290,000
Due to Other Governmental Units, net current portion	-	-	-	1,231,300
Total Long-term Liabilities	-	-	-	1,521,300
Total Liabilities	16,868	48,097	64,965	1,755,502
Net Assets				
Invested in Capital Assets, net	2,288,771	-	2,288,771	4,566,915
Restricted	727,575	-	727,575	-
Unrestricted	1,620,233	1,361,216	2,981,449	145,988
Total Net Assets	\$ 4,636,579	\$ 1,361,216	\$ 5,997,795	\$ 4,712,903

The accompanying notes are a part of the financial statements.

Bear Creek Township

Statement of Activities For Year Ended March 31, 2005

	Expenses	Program Revenues			Net Revenue (Expense) and Change in Net Assets			Component Unit
		Charges for Services	Operating Grants & Contributions	Capital Grants & Contributions	Governmental Activities	Business-type Activities	Total	
Governmental Activities:								
Legislative	\$ 248,867	\$ -	\$ -	\$ -	\$ (248,867)	\$ -	\$ (248,867)	\$ -
General Government	280,588	-	-	-	(280,588)	-	(280,588)	-
Community & Econ Develop.	3,488	-	-	-	(3,488)	-	(3,488)	-
Public Safety	327,890	229,890	-	-	(98,000)	-	(98,000)	-
Public Works	191,339	-	-	-	(191,339)	-	(191,339)	-
Recreation and Cultural	49,549	-	-	-	(49,549)	-	(49,549)	-
Total Government Activities	1,101,721	229,890	-	-	(871,831)	-	(871,831)	-
Business-type Activities								
Sewer	1,060,038	894,304	-	-	-	(165,734)	(165,734)	-
Total Primary Government	2,161,759	1,124,194	-	-	(871,831)	(165,734)	(1,037,565)	-
Component Units:								
Sewage Disposal Authority	\$ 910,282	\$ 622,642	\$ -	\$ -	-	-	-	(287,640)
General Revenues:								
Property Taxes					451,273	-	451,273	-
Administrative Fees					122,908	-	122,908	-
State Shared revenues					297,871	-	297,871	-
Interest					20,948	4,208	25,156	2,344
Refunds					3,212	-	3,212	-
Other					1,101	-	1,101	61,275
Total General Revenues					897,313	4,208	901,521	63,619
Change in Net Assets					25,482	(161,526)	(136,044)	(224,021)
Net Assets - Beginning of Year					4,611,097	1,522,742	6,133,839	4,936,924
Net Assets - End of Year					\$ 4,636,579	\$ 1,361,216	\$ 5,997,795	\$ 4,712,903

The accompanying notes are a part of the financial statements.

Bear Creek Township

Governmental Funds Balance Sheet March 31, 2005

<u>Assets</u>	<u>General</u>	<u>Fire</u>	<u>Building Inspector</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
Cash	\$1,059,515	\$ 240,341	\$ 154,011	\$ 54,705	\$ 1,508,572
Certificates of Deposit	657,610	-	-	50,000	707,610
Due From Other Funds	93,902	-	-	-	93,902
Due From Other Governmental Units	-	22,574	-	-	22,574
Taxes Receivable	20,621	10,870	-	527	32,018
Total Assets	<u>\$1,831,648</u>	<u>\$ 273,785</u>	<u>\$ 154,011</u>	<u>\$ 105,232</u>	<u>\$ 2,364,676</u>
 <u>Liabilities and Fund Equity</u>					
Liabilities:					
Accounts Payable	\$ 16,415	\$ -	\$ -	\$ 453	\$ 16,868
					-
Fund Equity:					
Fund Balance - Undesignated	1,620,233	-	-	-	1,620,233
Fund Balance - Designated	195,000	273,785	154,011	104,779	727,575
Total Fund Balance	<u>1,815,233</u>	<u>273,785</u>	<u>154,011</u>	<u>104,779</u>	<u>2,347,808</u>
Total Liabilities & Fund Equity	<u>\$1,831,648</u>	<u>\$ 273,785</u>	<u>\$ 154,011</u>	<u>\$ 105,232</u>	<u>\$ 2,364,676</u>

The accompanying notes are a part of the financial statements.

Bear Creek Township

Governmental Funds Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Assets March 31, 2005

Total Fund Balances - Governmental Funds	\$ 2,347,808
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Amounts reported for governmental activities in the Statement of Net Assets are different because:

Capital assets used in governmental activities are not financial resources and are not reported in the governmental funds balance sheet

Cost of capital assets	3,260,108
Accumulated depreciation	<u>(971,337)</u>
Total Net Assets - Governmental Activities	<u><u>\$ 4,636,579</u></u>

The accompanying notes are a part of the financial statements.

Bear Creek Township

Governmental Funds

Statement of Revenues, Expenditures and Changes in Fund Balances

For Year Ended March 31, 2005

	<u>General</u>	<u>Fire Fund</u>	<u>Building Inspection Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
Revenues:					
Taxes	\$ 290,069	\$ 154,200	\$ -	\$ 6,320	\$ 450,589
Administration Fees	122,908	-	-	-	122,908
Other Tax Collections	684	-	-	-	684
State Revenue	297,871	-	-	-	297,871
Licenses & Fees	-	-	225,250	4,640	229,890
Refunds	1,914	-	1,298	-	3,212
Interest	20,267	-	-	681	20,948
Other	1,101	-	-	-	1,101
	<u>734,814</u>	<u>154,200</u>	<u>226,548</u>	<u>11,641</u>	<u>1,127,203</u>
Total Revenues					
	<u>734,814</u>	<u>154,200</u>	<u>226,548</u>	<u>11,641</u>	<u>1,127,203</u>
Expenditures:					
Current:					
Legislative	235,298	-	13,569	-	248,867
General Government	249,974	-	7,725	-	257,699
Community & Econ.Develop.	3,488	-	-	-	3,488
Public Safety	6,009	88,785	136,823	7,219	238,836
Public Works	191,339	-	-	-	191,339
Recreation and Cultural	49,549	-	-	-	49,549
Capital Outlay	8,407	-	841	-	9,248
	<u>744,064</u>	<u>88,785</u>	<u>158,958</u>	<u>7,219</u>	<u>999,026</u>
Total Expenditures					
	<u>744,064</u>	<u>88,785</u>	<u>158,958</u>	<u>7,219</u>	<u>999,026</u>
Net Change in Fund Balance	(9,250)	65,415	67,590	4,422	128,177
Fund Balances - April 1, 2004	<u>1,824,483</u>	<u>208,370</u>	<u>86,421</u>	<u>100,357</u>	<u>2,219,631</u>
Fund Balances - March 31, 2005	<u>\$ 1,815,233</u>	<u>\$ 273,785</u>	<u>\$ 154,011</u>	<u>\$ 104,779</u>	<u>\$2,347,808</u>

The accompanying notes are a part of the financial statements.

Bear Creek Township

Governmental Funds Reconciliation of Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities For Year Ended March 31, 2005

Net Change in Fund Balances - Total Governmental Funds	\$ 128,177
Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives	9,248
Depreciation expense is recorded in the statement of activities but not the governmental fund financial statements	<u>(111,943)</u>
Changes in Net Assets - Governmental Activities	<u><u>\$ 25,482</u></u>

The accompanying notes are a part of the financial statements.

Bear Creek Township

Proprietary Fund Statement of Net Assets March 31, 2005

<u>Assets</u>	<u>Sewer</u>
Current Assets	
Cash and Cash Equivalents	\$ 7,419
Money Market Savings	280,963
Accounts Receivable	112,801
Taxes Receivable	11,587
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Total Current Assets	412,770
	<hr/>
Noncurrent Assets	
Investment in Joint Venture	996,543
	<hr/>
Total Assets	1,409,313
	<hr/>
<u>Liabilities and Fund Equity</u>	
Liabilities:	
Due to Other Funds	48,097
	<hr/>
Net Assets	
Fund Balance - Undesignated	1,361,216
	<hr/>
Total Net Assets	\$1,361,216
	<hr/>

The accompanying notes are a part of the financial statements.

Bear Creek Township

Proprietary Fund Statement of Revenues, Expenditures and Changes in Fund Balance For Year Ended March 31, 2005

	<u>Sewer</u>
Operating Revenues:	
Service Income	\$ 795,954
Tap-in fees	<u>98,350</u>
Total Revenues	\$ 894,304
Cost of Goods Sold	
Contracted Services	130,812
Treatment Expenses	<u>450,938</u>
Total Cost of Goods Sold	<u>581,750</u>
Gross Profit	312,554
Operating Expenses	
Service Charges	376
Professional Services	81,901
Administrative Expenses	10,414
Inspection Fees	262
Reserve for Repair and Replacement Contributions	32,588
Meter Expenses	4,575
Office Expenses	1,458
Sewer Board Expenses	<u>1,360</u>
Total Expenditures	<u>132,934</u>
Operating Income	179,620
Nonoperating Revenue (Expenses)	
Interest Income	4,208
Debt Service	(143,735)
Net Loss from Joint Venture	<u>(201,619)</u>
Total nonoperating revenues (expenses)	<u>(341,146)</u>
Net Change in Fund Balance	(161,526)
Fund Balances - April 1, 2004	<u>1,522,742</u>
Fund Balances - March 31, 2005	<u><u>\$ 1,361,216</u></u>

The accompanying notes are a part of the financial statements.

Bear Creek Township

Proprietary Fund Statement of Cash Flows For Year Ended March 31, 2005

	<u>Enterprise</u>
CASH FLOWS FROM OPERATING ACTIVITIES:	
Fees and services	\$ 924,976
Payments for goods and services	<u>714,684</u>
Net cash provided by operating activities	210,292
 CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Contribution by townships to defray interest and bond fee expenses	(143,735)
 CASH FLOWS FROM INVESTING ACTIVITIES	
Interest earned	<u>4,208</u>
 NET INCREASE IN CASH AND CASH EQUIVALENTS	70,765
 CASH AND CASH EQUIVALENTS, April 1, 2004	<u>217,617</u>
 CASH AND CASH EQUIVALENTS, March 31, 2005	<u><u>288,382</u></u>
 COMPONENTS OF CASH AND CASH EQUIVALENTS:	
Unrestricted	<u><u>\$ 288,382</u></u>
 RECONCILIATION OF NET OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Operating income	\$ 179,620
Adjustments to reconcile operating income to net cash provided by operating activities	
Decrease in accounts receivable	56,670
Decrease in accounts payable and due to other units	<u>(25,998)</u>
	<u><u>\$ 210,292</u></u>

The accompanying notes are a part of the financial statements.

Bear Creek Township

Fiduciary Fund Statement of Net Assets March 31, 2005

Assets

Cash

\$ 131,908

Liabilities

Due to Other Governmental Units

\$ 38,006

Due to Other Funds

93,902

\$ 131,908

The accompanying notes are a part of the financial statements.

Bear Creek Township

Fiduciary Fund Statement of Changes in Fiduciary Net Assets For Year Ended March 31, 2005

Additions:

Property Tax Collections for Other Governments	\$ 9,196,036
Property Tax Collections for Component Unit	438,615
Interest Earnings	<u>3,531</u>

Total Additions	<u>9,638,182</u>
-----------------	------------------

Deductions:

Property Tax Distributions to Other Governments	9,158,030
Property Tax Distributions to Component Unit	<u>425,356</u>

Total Distributions	<u>9,583,386</u>
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Change in Net Assets	<u>54,796</u>
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Fiduciary Net Assets - Beginning of Year	<u>77,112</u>
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Fiduciary Net Assets - End of Year	<u><u>\$ 131,908</u></u>
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The accompanying notes are a part of the financial statements.

Bear Creek Township

Notes to Financial Statements For Year Ended March 31, 2005

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Bear Creek Township (Township) conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by Bear Creek Township.

A. Reporting Entity

The Township operates under a Board-Supervisor form of government and provides the following services: public safety (fire), building inspection, planning and zoning, and general administrative services.

In accordance with generally accepted accounting principles and Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity* and GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, these financial statements present the Local Unit (primary government). The criteria established by the GASB statements for determining the reporting entity includes oversight responsibility, fiscal dependency, and whether the financial statements would be misleading if data were not included. Based on these criteria, the Township has one component unit.

Discretely Presented Component Units - Bear Creek Township, in a joint venture with adjacent Springvale Township, created the Springvale – Bear Creek Sewage Disposal Authority for the purpose of providing a portion of each Township with a sewage collection system. Financing of the system included, in part, the issuance of Authority Bonds. Under the terms of a contractual agreement between the Townships and the Authority, the Townships have agreed to reimburse the Authority all debt service costs associated with the bond issue and the debt service costs are payable solely from such payments. Payments to the Authority are required annually on the first of each February in an amount equal to the bond interest, principal and service costs payable within the ensuing year.

The Townships have agreed to include in their annual property tax levy an amount sufficient to make the stipulated annual bond interest and principal payments. The full faith and credit of the Townships and an amount not exceeding 25 percent of the monies each unit receives annually as a return of state sales tax are pledged for payment of the debt service costs.

Bear Creek Township

Notes to Financial Statements For Year Ended March 31, 2005

In addition, the Townships are responsible for billings to sewage customers located within their boundaries.

The Township's share of the net income transferred to retained earnings and increase in net equity in the Springvale – Bear Creek Sewage Disposal Authority for the Authority's year end of December 31, 2004, have been recorded in the Township's Sewer Fund.

A copy of the separate audited financial statements of the Springvale – Bear Creek Sewage Disposal Authority may be obtained directly from the Bear Creek Treasurer, Division Road, Petoskey, Michigan 49770.

Jointly Governed Organization - The Township, in a joint venture with adjacent Resort Township, has formed the Resort – Bear Creek Townships' Volunteer Fire Department to better serve the area of these two townships with fire protection. The expenditures of the Fire Department are reimbursed by the two townships.

The financial statements of Resort – Bear Creek Townships' Volunteer Fire Department have been blended into these financial statements.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e. the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from a legally separate component unit for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Bear Creek Township

Notes to Financial Statements For Year Ended March 31, 2005

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Property taxes, state shared revenue, and interest associated with current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the Township.

The Township reports the following major governmental funds:

General Fund – The General Fund is the general operating fund of the Township. It is used to account for all financial resources except those required to be accounted for in another fund.

Fire Operating Fund – The Fire Operating Fund accounts for all activities of the Township's fire department, except for the purchase of equipment.

Bear Creek Township

Notes to Financial Statements For Year Ended March 31, 2005

Liquor Control Fund – The Liquor Control Fund accounts for the activities of liquor control inspection within the Township.

Building Inspection Fund – The Building Inspection Fund accounts for the activities of the building department.

Light District Fund – The Light District Fund accounts for the resources used for providing street lighting.

Agency and Tax Collection Fund – The Agency Fund is used to account for assets held by the Township in a trustee capacity or as an agent for individuals, private organizations, other governments and/or other funds. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

The Township reports the following major proprietary fund:

Sewer Fund – The Sewer Fund accounts for the activities of the sewage collection system.

D. Assets, Liabilities, and Net Assets or Equity

Cash and Investments

The Township's cash and cash equivalents are considered to be cash in bank, cash in savings, certificates of deposits and investments with original maturities of one year or less from date of acquisition.

Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due to/from other funds".

Capital Assets

Capital assets, which include property, plant, equipment, infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the Township as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if

Bear Creek Township

Notes to Financial Statements For Year Ended March 31, 2005

purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Property, plant and equipment are depreciated using the straight-line method over the following useful lives.

Buildings	40 years
Equipment	5-10 years
Land Improvements	15 years
Building Improvements	20 years

Compensated Absences

The Township has a vacation leave policy for its full time employees. The employees are required to use vacation time during the period allocated. Employees are not allowed to accumulate unused vacation leave.

Long-term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

As of March 31, 2005, the Township had no outstanding long-term debt from governmental activities.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Bear Creek Township

Notes to Financial Statements For Year Ended March 31, 2005

Use of Estimates

The Township used estimates and assumptions in preparing financial statements in accordance with generally accepted accounting principles. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenditures. Actual results could vary from the estimates that were assumed in preparing the financial statements.

Accounting Change

As of April 1, 2004, the Township implemented the provisions of Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments (Statement) along with all related statements and interpretations. Some of the significant changes in the Statement include the following:

- A Management’s Discussion and Analysis (MD&A) section providing an analysis of the Township’s overall financial position and results of operations has been included.
- Government-wide financial statements (statement of net assets and statement of activities) prepared using full accrual accounting for all of the Township’s activities have been provided. Reconciliations are presented between the governmental fund level (modified accrual) and government-wide (full accrual) statements since their measurement focus is not the same.
- Capital assets reported on the statement of net assets include assets in the amount of \$3,260,108, which was the amount previously reported in the General Fixed Assets Account Group. The government-wide statement of activities reflects depreciation expenses on the Township’s applicable capital assets.
- The fund financial statements focus on major funds rather than fund types.

The implementation has also required certain disclosures to be made in the notes to the financial statements concurrent with implementation of Statement No. 34 based on GASB No. 38. Certain note disclosures have been added and/or amended, including descriptions of activities of major funds and various other disclosures.

Bear Creek Township

Notes to Financial Statements For Year Ended March 31, 2005

NOTE 2 – STEWARDSHIP, COMPLIANCE and ACCOUNTABILITY

Budgets and Budgetary Accounting

The Township follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to April 1, the Supervisor submits to the Township Board a proposed operating budget for the fiscal year commencing the following April 1. The operating budget includes proposed expenditures and the means of financing them.
2. Public hearing is conducted to obtain taxpayer comments.
3. The budget is legally enacted through passage of an ordinance prior to April 1.
4. The budget is adopted at the total fund level on a basis consistent with generally accepted accounting principles. Budget amounts are as originally adopted, or as amended by the Township Board during the year.
5. Appropriations expire at the end of the fiscal year.

Excess of Expenditures over Appropriations in Budgeted Funds

Michigan Public Act 621 of 1978, Section 18(1), as amended, provides that a local governmental unit shall not incur expenditures in excess of the amount appropriated. During the year ended March 31, 2005, the Township incurred expenditures in the General Fund and Building Inspection Fund in excess of the amounts appropriated, as follows:

<u>FUND</u>	<u>Total Appropriation</u>	<u>Amount Expended</u>	<u>Unfavorable Variance</u>
General Fund			
Legislative	\$ 222,600	\$ 235,298	\$ 12,698
General Government	247,350	249,974	2,624
Public Safety	-	6,009	6,009
Building Inspection Fund			
Legislative	-	13,569	13,569
General Government	5,600	7,725	2,125
Capital Outlay	-	841	841

Bear Creek Township

Notes to Financial Statements For Year Ended March 31, 2005

Accumulated Fund Deficits

The Bear Creek Township had no funds with an accumulated fund balance/retained earnings deficit at March 31, 2005.

State Construction Code Act

The Township oversees building construction, in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The Township charges fees for these services. The law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the current year activity and the cumulative surplus generated since January 1, 2000 is as follows:

Cumulative surplus at April 1, 2004	\$ 86,421
Current year building permit revenue	\$ 226,548
Related Expenditures	<u>158,958</u>
Net surplus for the year ended March 31, 2005	<u>67,590</u>
Cumulative surplus at March 31, 2005	<u><u>\$154,011</u></u>

NOTE 3 – DEPOSITS AND INVESTMENTS

Michigan Compiled Laws, Section 129.91, authorizes the Local Unit to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or federal agency obligation repurchase agreements; banker's acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

Bear Creek Township

Notes to Financial Statements For Year Ended March 31, 2005

<u>Assets</u>	<u>General Government</u>	<u>Business-type Activities</u>	<u>Total Primary Government</u>	<u>Fiduciary Fund</u>	<u>Component Units</u>
Cash	\$ 1,508,572	\$ 288,382	\$ 1,796,954	\$ 131,908	\$ 26,900
Certificates of Deposit	707,610	-	707,610	-	-
Restricted Assets	-	-	-	-	1,719,479
Totals	<u>\$ 2,216,182</u>	<u>\$ 288,382</u>	<u>\$ 2,504,564</u>	<u>\$ 131,908</u>	<u>\$ 1,746,379</u>

Deposits – At March 31, 2005 the carrying amount of the Township's deposits was \$1,796,954.

Investments – The carrying amount of the Township's investments as March 31, 2005 consisted of certificates of deposit totaling \$707,610.

The nature of the investment funds does not allow for risk categorization, which is in accordance with GASB Statement No. 3.

Federal Depository Insurance – Of the above balances, \$1,612,244 was covered by federal depository insurance and U.S. Government guarantees. The remaining \$892,320 was uninsured and uncollateralized. State statutes prohibit security in the form of collateral, surety bonds or another form to be taken for the deposit of public funds. The township may experience significant fluctuations in deposit balances during the year.

NOTE 4 – PROPERTY TAXES

Property taxes attach as an enforceable lien (due and payable) on property upon levy. Taxes are levied in December and are payable from December through February 15. The Township bills and collects its own property taxes and also taxes for other governmental units. Collections of the other governmental units' taxes and remittances of them to the units are accounted for in the Agency Fund. Property tax revenues are recognized when levied.

The Township is permitted by state law, subject to State Headlee and Truth-in-Taxation provision, to levy taxes up to \$1.00 per \$1,000 of assessed valuation for general governmental services other than the payment of principal and interest on long-term debt and unlimited amounts for payment of principal and interest on general obligation long-term debt.

Bear Creek Township

Notes to Financial Statements For Year Ended March 31, 2005

The tax rates for the year ended March 31, 2005 were as follows:

<u>PURPOSE</u>	<u>RATE/ ASSESSED VALUATION</u>
Operations:	
General governmental operations	0.9485 per \$1000
Fire protection	0.5000 per \$1000
Light District	0.3000 per \$1000

NOTE 5 – CAPITAL ASSETS

Capital asset activity of the primary government for the current year was as follows:

	<u>Balance of April 1, 2004</u>	<u>Additions</u>	<u>Disposal</u>	<u>Balance of March 31, 2005</u>
Capital Assets not being depreciated				
Land	\$ 1,006,097	\$ -	\$ -	\$ 1,006,097
Capital Assets being depreciated				
Land Improvements	43,657	-	-	43,657
Buildings	780,258	-	-	780,258
Building Improvements	112,638	2,556	-	115,194
Equipment and Furniture	417,675	6,692	-	424,367
Safety Equipment	890,535	-	-	890,535
Total Capital Assets, being depreciated	2,244,763	9,248	-	2,254,011
Less Accumulated Depreciation:				
Land Improvements	25,036	1,696	-	26,732
Buildings	157,131	10,997	-	168,128
Building Improvements	20,384	2,880	-	23,264
Equipment and Furniture	404,188	7,316	-	411,504
Safety Equipment	252,655	89,054	-	341,709
Total Depreciation	859,394	\$ 111,943	\$ -	971,337
Totals	<u>\$ 2,391,466</u>			<u>\$ 2,288,771</u>

Bear Creek Township

Notes to Financial Statements For Year Ended March 31, 2005

Depreciation expense was charged to the Township's functions as follows:

	Amount
General Government	\$ 22,889
Public Safety	<u>89,054</u>
	<u><u>\$ 111,943</u></u>

NOTE 6 – RECEIVABLES AND PAYABLES

Receivables for the primary government at March 31, 2005 are as follows:

	General Fund	Trust and Agency Fund
Interfund Receivable	<u>\$ 93,802</u>	<u>\$ -</u>
Interfund Payable	<u>-</u>	<u>93,802</u>
	<u><u>\$ 93,802</u></u>	<u><u>\$ 93,802</u></u>

NOTE 7 – LONG-TERM DEBT

The Township had no outstanding long-term debt for governmental activities as of the year-end March 31, 2005.

Component Unit:

The following is a summary of long-term debt transactions for the year ended December 31, 2004:

	<u>2004</u>
Long-term debt payable, beginning of year	\$ 430,000
Long-term debt retired	<u>(70,000)</u>
Long-term debt payable, end of year	<u><u>\$ 360,000</u></u>

Long-term debt consists of the following at December 31, 2004:

\$1,310,000 Series 1989 Refunding Bonds due in annual installments of \$40,000 to \$95,000 plus interest of 7.500 to 7.625 percent. The bonds mature on March 1, 2009	<u><u>\$ 360,000.00</u></u>
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Bear Creek Township

Notes to Financial Statements For Year Ended March 31, 2005

The annual requirements to amortize all debt outstanding as of December 31, 2004, including interest payments of \$72,069, are as follows:

<u>Year ending December 31</u>	
2005	\$ 94,575
2006	84,513
2007	79,637
2008	74,722
2009	<u>98,622</u>
Total	<u>\$ 432,069</u>

NOTE 8 – FUND EQUITY RESERVATIONS AND DESIGNATIONS

The General Fund balance has \$135,000 reserved for a fire equipment sinking fund and \$60,000 reserved for a parks and recreation sinking fund.

The Fire Fund has \$273,785 designated for public safety.

The Building Inspection has \$154,011 designated for public safety.

The Liquor Inspection Fund has \$99,596 designated for public safety.

The Light District Fund has \$5,183 designated for public safety.

NOTE 9 – RISK MANAGEMENT

The Township is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets; error and omissions; injuries to employees and natural disasters.

The Township belongs to the Michigan Township Participating Plan, which currently operates as a common risk management and insurance program for various municipalities throughout the state. The Township pays an annual premium for its general insurance and worker's compensation coverage. The Plan is self-sustaining through member premiums and 100% reinsures through commercial companies.

Bear Creek Township

Notes to Financial Statements For Year Ended March 31, 2005

NOTE 10 – COMMITMENTS AND CONTINGENCIES

In a prior year, a lawsuit was filed against the Township relating to a zoning matter. The parties entered into a consent judgment. Township residents held referendum election, upheld by the circuit court and rejected the land use changes provided by the consent judgment. An appeal was made to the state appellate court of the circuit court's ruling regarding the referendum. The appellate court overturned the decision of the local circuit court and found that the consent judgment was not subject to the citizen's referendum. The citizens that had originally sought the referendum election with regard to the consent judgment has since sought to appeal the decision of the Michigan Court of Appeals to the Michigan Supreme Court. The Township has not joined this appeal.

The Township has tendered the defense of the suit to its liability insurance carrier.

Because of the present uncertainty concerning the consent judgment, the referendum election and pending appeals, a prediction as to the eventual outcome of this matter cannot be made at this time.

Bear Creek Township

Governmental Funds
Statement of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual
General Fund
For Year Ended March 31, 2005

	Original Budget	Final Budget	Actual	Variance with Final Budget Over (Under)
Revenues:				
Taxes:				
Property tax collections	\$ 433,700	\$ 325,000	\$ 290,069	\$ (34,931)
Tax collection fees	-	108,000	122,908	14,908
Other tax collections	-	700	684	(16)
State Shared Revenues	452,500	355,000	297,871	(57,129)
Refunds	-	7,000	1,914	(5,086)
Other Income	14,000	7,000	1,101	(5,899)
Interest	10,000	10,000	20,267	10,267
Total Revenues	910,200	812,700	734,814	(77,886)
Expenditures:				
Legislative				
Personal Services	33,600	33,600	28,689	(4,911)
Pension plan	12,000	12,000	10,484	(1,516)
Payroll taxes	20,000	20,000	11,259	(8,741)
Professional services	75,000	75,000	93,694	18,694
Insurance and bonds	11,000	11,000	10,925	(75)
Supplies	-	2,500	4,303	1,803
Employee benefits	12,000	12,000	10,213	(1,787)
Printing and publishing	4,500	4,500	2,865	(1,635)
Travel	2,000	2,000	585	(1,415)
Misc.	50,000	50,000	62,281	12,281
Total Legislative	220,100	222,600	235,298	12,698
General Government				
Township Supervisor				
Personal Services	10,500	10,500	10,897	397
Elections				
Personal Services	5,000	5,000	10,858	5,858
Township Assessor				
Personal Services	45,000	45,000	45,044	44
Supplies	6,000	6,000	6,506	506
Total Township Assessor	51,000	51,000	51,550	550

Bear Creek Township

Governmental Funds
Statement of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual
General Fund
For Year Ended March 31, 2005

	Original Budget	Final Budget	Actual	Variance with Final Budget Over (Under)
Township Clerk				
Personal Services	16,200	16,200	16,200	-
Supplies	2,000	2,000	928	(1,072)
Total Township Clerk	18,200	18,200	17,128	(1,072)
Township Board of Review	2,500	2,500	2,400	(100)
Township Treasurer				
Personal Services	20,000	20,000	20,000	-
Supplies	8,500	8,500	9,661	1,161
Total Township Treasurer	28,500	28,500	29,661	1,161
Township Properties				
Personal Services	6,000	6,000	4,705	(1,295)
Communications	6,000	3,900	4,024	124
Utilities	10,000	6,500	7,716	1,216
Waste & Snow Removal	20,000	20,000	18,606	(1,394)
Spring cleanup	60,000	86,000	84,045	(1,955)
Maintenance	7,500	7,500	6,872	(628)
Other Wages	-	-	1,320	1,320
Misc.	750	750	192	(558)
Meter Reading	-	1,000	-	(1,000)
Total Township Properties	110,250	131,650	127,480	(4,170)
Total General Government	225,950	247,350	249,974	2,624
Planning & Zoning	-	30,000	3,488	(26,512)
Recreation and Culture				
Library	-	-	5,455	-
Airport	-	-	9,349	-
Recreation	-	-	34,745	-
Total Recreation & Culture	50,000	50,000	49,549	(451)

Bear Creek Township

Governmental Funds
Statement of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual
General Fund
For Year Ended March 31, 2005

	Original Budget	Final Budget	Actual	Variance with Final Budget Over (Under)
Public Works				
Improvements	15,000	252,000	188,206	(63,794)
Repairs and Maintenance	5,000	5,000	3,133	(1,867)
Total Public Works	<u>20,000</u>	<u>257,000</u>	<u>191,339</u>	<u>(65,661)</u>
Public Safety				
Personal Services	-	-	6,009	6,009
Capital Outlay				
Building Improvements	5,000	5,000	2,556	(2,444)
Equipment	15,000	15,000	5,851	(9,149)
Fire equipment	30,000	30,000	-	(30,000)
Total Capital outlay	<u>50,000</u>	<u>50,000</u>	<u>8,407</u>	<u>(41,593)</u>
Total Expenditures	<u>566,050</u>	<u>856,950</u>	<u>744,064</u>	<u>(112,886)</u>
Net Change in Fund Balance	344,150	(44,250)	(9,250)	35,000
Fund Balance - April 1, 2004	<u>1,824,483</u>	<u>1,824,483</u>	<u>1,824,483</u>	<u>-</u>
Fund Balance - March 31, 2005	<u>\$ 2,168,633</u>	<u>\$ 1,780,233</u>	<u>\$ 1,815,233</u>	<u>\$ 35,000</u>

Bear Creek Township

Fire Fund

Statement of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual
For Year Ended March 31, 2005

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget Over (Under)</u>
Revenues:				
Taxes				
Property Taxes	\$ 165,000	\$165,000	\$ 154,200	\$ (10,800)
Expenditures:				
Operating Expense	<u>162,000</u>	<u>162,000</u>	<u>88,785</u>	<u>(73,215)</u>
Excess Revenues (Expenditures)	3,000	3,000	65,415	62,415
Fund Balance - April 1, 2004	<u>208,370</u>	<u>208,370</u>	<u>208,370</u>	<u>-</u>
Fund Balance - March 31, 2005	<u><u>\$ 211,370</u></u>	<u><u>\$211,370</u></u>	<u><u>\$273,785</u></u>	<u><u>\$ 62,415</u></u>

Bear Creek Township

Building Inspection Fund Statement of Revenues, Expenditures, and Changes in Fund Balance Budget and Actual For Year Ended March 31, 2005

	Original Budget	Final Budget	Actual	Variance With Final Budget Over (Under)
Revenues:				
Licenses and Permits	\$ -	\$ 150,000	\$ 225,250	\$ 75,250
Refunds	-	-	1,298	1,298
Total Revenues	-	150,000	226,548	76,548
Expenditures:				
Legislative				
Payroll Taxes	-	-	10,156	10,156
Employee Benefits	-	-	618	618
Travel Expenses	-	-	2,720	2,720
Miscellaneous Expense	-	-	75	75
Total Legislative	-	-	13,569	13,569
General Government				
Board of Review	-	-	680	680
Township Hall				
Maintenance	-	-	1,015	1,015
Communications	-	2,100	2,059	(41)
Utilities	-	3,500	3,000	(500)
Waste and Snow Removal	-	-	971	971
Total Township Hall	-	5,600	7,045	1,445
Total General Government	-	5,600	7,725	2,125
Public Safety				
Building Inspector				
Personal Services	-	120,000	121,480	1,480
Supplies	-	6,000	4,302	(1,698)
Secretary Wages	-	13,000	11,041	(1,959)
Total Public Safety	-	139,000	136,823	(2,177)
Capital Outlay		-	841	841
Total Expenditures	-	144,600	158,958	14,358
Excess Revenues (Expenditures)	-	5,400	67,590	62,190
Fund Balance - Beginning of Year	86,421	86,421	86,421	-
Fund Balance - End of Year	\$ 86,421	\$ 91,821	\$ 154,011	\$ 62,190

Bear Creek Township

Other Supplemental Information Balance Sheet - Nonmajor Governmental Funds March 31, 2005

<u>Assets</u>	Liquor	Light District	Total
Cash	\$ 49,596	\$ 5,109	\$ 54,705
Certificates of Deposit	50,000	-	50,000
Taxes Receivable	-	527	527
Total Assets	<u>\$ 99,596</u>	<u>\$ 5,636</u>	<u>\$ 105,232</u>
<u>Liabilities and Fund Equity</u>			
Liabilities:			
Accounts Payable	\$ -	\$ 453	\$ 453
Fund Balance:			
Designated	<u>99,596</u>	<u>5,183</u>	<u>104,779</u>
Total Fund Balance	<u>99,596</u>	<u>5,183</u>	<u>104,779</u>
Total Liabilities & Fund Equity	<u>\$ 99,596</u>	<u>\$ 5,636</u>	<u>\$ 105,232</u>

Bear Creek Township

Other Supplemental Information Statement of Revenues, Expenditures and Changes in Fund Balance Nonmajor Governmental Funds For Year Ended March 31, 2005

	Liquor Fund	Light District Fund	Total
Revenues:			
Property Taxes	\$ -	\$ 6,320	\$ 6,320
Licenses and Permits	4,640	-	4,640
Interest Income	681	-	681
	<hr/>	<hr/>	<hr/>
Total Revenues	5,321	6,320	11,641
Expenditures:			
Public Safety			
Liquor Inspector			
Personal Services	1,500	-	1,500
Supplies	254	-	254
Street Lighting	-	5,465	5,465
	<hr/>	<hr/>	<hr/>
Total Expenditures	1,754	5,465	7,219
	<hr/>	<hr/>	<hr/>
Excess Revenues (Expenditures)	3,567	855	4,422
	<hr/>	<hr/>	<hr/>
Fund Balance - Beginning of Year	96,029	4,328	100,357
	<hr/>	<hr/>	<hr/>
Fund Balance - End of Year	<u>\$ 99,596</u>	<u>\$ 5,183</u>	<u>\$ 104,779</u>

Bear Creek Township

Statement of Tax Levy and Collections March 31, 2005

	<u>Millage Rate</u>	<u>Adjusted Levy</u>	<u>Remitted Collections</u>	<u>Returned Delinquent</u>	<u>Balance Due Units</u>
Emmet County	5.9734	\$ 1,859,753	\$ 1,717,945	\$ 141,808	\$ -
Petoskey Public Schools	21.8585	4,436,966	4,064,862	372,104	-
Char-Emmet ISD	2.7534	857,257	791,203	66,054	-
North Central Michigan College	2.3092	718,918	663,945	54,973	-
Greenwood Cemetery	0.4700	146,318	135,129	11,189	-
SET	6.0000	1,868,095	1,784,946	83,149	-
Township:					
General	0.9485	295,396	272,807	22,589	-
Fire Fund	0.5000	155,662	143,759	11,903	-
Light District	0.3000	6,713	6,186	527	-
Tax Collection Fees	-	102,664	4,600	7,693	90,371
Delinquent Sewer	-	19,483	7,896	11,587	-
Undistributed Personal Property Tax		-	38,006	-	38,006
Interest Income	-	3,531	-	-	3,531
Total	<u>41.1130</u>	<u>\$ 10,470,756</u>	<u>\$ 9,631,284</u>	<u>\$ 783,576</u>	<u>\$ 131,908</u>
Percent of Levy Collected		<u>92%</u>			

MASON & KAMMERMANN, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

HUGH E. MASON
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September 28, 2005

To the Township Board
Bear Creek Township
Petoskey, Michigan

We have audited the financial statements of Bear Creek Township for the year ended March 31, 2005. As required by auditing standards generally accepted in the United States, the independent auditor is required to make several communications to the governing body having oversight responsibility for the audit. The purpose of this communication is to provide you with additional information regarding the scope and results of our audit that may assist you with your oversight responsibilities of the financial reporting process for which management is responsible.

Auditor's Responsibility

We conducted our audit of the financial statements of Bear Creek Township in accordance with auditing standards accepted in the United States. The following paragraph explains our responsibilities under those standards.

Management has the responsibility for adopting sound accounting policies, for maintaining an adequate and effective system of accounts, for the safeguarding of assets, and for devising an internal control structure that will, among other things, help assure the proper recording of transactions. The transactions that should be reflected in the accounts and in the financial statements are matters within the direct knowledge and control of management. Our knowledge of such transactions is limited to that acquired through our audit. Accordingly, the fairness of representations made through the financial statements is an implicit and integral part of management's accounts and records. However, our responsibility for the financial statements is confined to the expression of an opinion on them. The financial statements remain the responsibility of management.

The concept of materiality is inherent in the work of an independent auditor. An auditor places greater emphasis on those items that have, on a relative basis, more importance to the financial statements and greater possibilities of material error than those items of lesser importance or those in which the possibility of material error is remote.

For this purpose, materiality has been defined as "the magnitude of an omission or misstatement of accounting information that, in light of surrounding circumstances,

makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement.”

An independent auditor’s objective in an audit is to obtain sufficient competent evidential matter to provide a reasonable basis for forming an opinion on the financial statements. In doing so, the auditor must work within economic limits; the opinion, to be economically useful, must be formed within a reasonable length of time and at reasonable cost. That is why an auditor’s work is based on selected tests rather than attempt to verify all transactions. Since evidence is examined on a test basis only, an audit provides only reasonable assurance, rather than absolute assurance, that financial statements are free of material misstatement. Thus, there is a risk that audited financial statements may contain undiscovered material errors or fraud. The existence of that risk is implicit in the phrase in the audit report, “in our opinion”

In the audit process, we gain an understanding of the internal control structure of an entity for the purpose of assisting in determining the nature, timing, and extent of audit testing. Our understanding is obtained by inquiry of management, testing transactions, and observation and review of documents and records. The amount of work done is not sufficient to provide a basis for an opinion on the adequacy of the internal control structure.

Significant Accounting Policies

The significant accounting policies are described in Note 1 to the financial statements.

Other Communications

Auditing standards call for us to inform you of other significant issues such as, but not limited to, 1) Accounting estimates that are particularly sensitive because of their significance to the financial statements or because of the possibility that future events affecting them may differ markedly from management’s current judgments; 2) Significant audit adjustments that may not have been detected except through the auditing procedures we performed; 3) Disagreements with management regarding the scope of the audit or application of accounting principles; 4) Consultation with other accountants; 5) Major issues discussed with management prior to retention; and 6) Difficulties encountered in performing the audit.

We have no significant issues, regarding these matters, to report to you at this time. Audit adjustments were minimal, and are available for review.

GASB 34 Implementation

The Governmental Accounting Standards Board issued a new reporting model for governmental units, which was required to be implemented for the fiscal year ended March 31, 2005. The implementation of this pronouncement for Bear Creek Township began with the year ended March 31, 2005. The daily operations and recording

transactions did not change significantly, however, the Township is required to maintain additional records for the year-end adjustments to the final presentation format.

Comments and Recommendations:

Personal Property Taxes

Audit procedures again revealed a significant amount of personal property taxes were unpaid as of February 15, 2005. Michigan property tax law doesn't allow personal property tax to be returned delinquent. The statutes do provide the township treasurer with legal means for collection. It is our recommendation the township treasurer use whatever means are available to collect these taxes.

Distribution of Taxes

Audit procedures discovered tax collections that had not been distributed on a timely basis. Taxes must be distributed to the county treasurer and other tax assessing unit treasurers of the tax collections on hand each month within 10 business days after the first and fifteenth day of each month (unless another distribution schedule has been agreed to by all parties).

Internal Controls, Compliance and Efficiency

Our procedures disclosed the following conditions that we would like to bring to your attention:

Segregation of Duties

A separation of duties between persons who authorize transactions and persons who have control over the related assets does not always exist.

The least desirable accounting system is one in which an employee is responsible for executing the transaction and then recording the transaction from its origin to its ultimate posting in the General Ledger. This increases the likelihood that intentional or unintentional errors will go undetected. In most cases, adequate segregation of duties substantially increases control over errors without duplication effort.

We understand that due to the size of needed staff, a proper segregation of duties may be impractical and the "cost to benefit" relationship may not justify the addition of accounting staff to accomplish the desired segregation.

These conditions were considered in determining the nature, timing and extent of the audit tests to be applied in our audit of the Township's financial statements and this communication of these matters does not affect our report on the Township's financial statements, dated March 31, 2005.

Summary

We welcome any questions you may have regarding the foregoing comments and we would be happy to discuss any of these or other questions that you might have at your convenience.

Sincerely,

Mason & Kammermann PC

Mason & Kammermann, P.C.
Certified Public Accountants